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ABSTRACT

College and university trustees and administrators are employing various strategies to deal with financial challenges. These fall generally into five categories: (1) attracting additional revenues to help close the gap between resources and expenses; (2) reassessing tuition and financial aid policies to alter the size or mix of the student body; (3) cutting costs, improving quality, and restructuring how the institution educates students and administers programs; (4) introducing or expanding the use of technology to educate students and improve administrative functions; and (5) optimizing resource sharing by forming alliances and cooperating with other institutions. Governing board members can ask institution-specific questions concerning: whether the size of the institution should remain the same or change; whether revenue-raising activities are consistent with the institution's mission and values; degree to which the institution is dependent on student charges as a revenue source; the possibility of improving administrative and academic productivity without sacrificing quality; the knowledge base concerning technology and learning and associated costs; and the possibility of there collaborative efforts that can enhance the institution's competitive ability and position. Two issues are paramount: first, the current balance of power among trustees, faculty, and administrators; and second, especially for public institutions, the degree to which the institution has sufficient authority to establish campus priorities and funding patterns. (Contains 12 references.) (JLS)

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Association of Governing Boards
of Universities and Colleges

Five Strategic Responses to the Financial Challenges Facing Colleges and Universities

By Arthur M. Hauptman

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Executive Summary

American colleges and universities face a critical financial challenge in the years ahead: an overall slowdown in revenue growth, coupled with accelerated demand for higher education. In response to this challenge, trustees and administrators are employing a variety of strategies that (1) require changing an existing major policy, program, or practice of their institution and (2) involve some degree of risk.

These *strategic* responses generally fall into five categories:

1. Attract additional revenues to help close the gap between resources and expense.
2. Reassess tuition and financial aid policies to alter the size or mix of the student body.
3. Cut costs, improve quality, and restructure how the institution educates students and administers its programs.
4. Introduce or expand the use of technology to educate students and improve administrative functions.
5. Optimize resource sharing by forming alliances and cooperating with other institutions.

Governing board members can ask specific questions when evaluating whether these strategic responses make sense for their institutions. For example: Should the size of our institution increase, decrease, or stay about the same? Are our revenue-raising activities consistent with our institution's mission and values? How dependent are we on charges for tuition, room, and board as a revenue source? Can we improve administrative and academic productivity without sacrificing quality? How do we know that new technologies will enhance teaching and learning—and what are the cost consequences of adopting them? Are there ways collaborative efforts can enhance, and not detract from, our ability to compete with other institutions?

All of these questions must be assessed within the broader context of the college or university's governance structure. Two issues are paramount. First is the current balance of power among trustees, faculty, and administrators and its effect on decision-making processes. Second, in the public sector, is the degree to which the institution has sufficient authority to establish campus priorities and funding patterns, and whether it would make sense to centralize or decentralize management of its internal affairs. The answers will determine the efficiency and effectiveness of any strategic response to the slow revenue growth/high demand challenge.

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Five Strategic Responses to the Financial Challenges Facing Colleges and Universities

By Arthur M. Hauptman

The 1990s have been an unusual decade for American higher education. In contrast to the 1980s, when all major resources for higher education grew substantially, the 1990s have been marked by an overall slowdown in revenue growth. Several factors have contributed to this trend. First, state support of public institutions, the largest single source of higher education funding, barely grew (when adjusted for inflation) over the first half of the decade. In 1992, in fact, state funds for higher education actually fell in current dollar terms, the first time that had happened since the Great Depression. Also, as a result of efforts to trim the federal deficit, federal support of higher education, despite continued real growth in research dollars, has grown more slowly overall in recent years.

Tuition and other student charges, however, have continued to grow at roughly twice the rate of inflation during the 1990s, just as they did throughout the 1980s. But consumer resistance to these price hikes has stiffened in recent years, making it unlikely that student charges will grow as rapidly in the future as they have in the past. Moreover, to the extent that institutions use these charges to provide financial aid to a growing proportion of students, resources available for other purposes have increased more slowly than tuition price hikes would seem to indicate. Even the stock market's record-breaking run in the first half of the 1990s, while substantially increasing many institutional endowments, has not generated enough revenue to offset the slowed growth of other major revenue sources.

Making matters worse, these constraints on the growth in higher education resources coincide with an impending increase in the number of high school graduates, following a decade and a half of decline. In addition, a greater share of the general population now is seeking higher education. These demographic trends will translate into growing demand, particularly in the South and West, where the number of high school graduates will grow by at least one-quarter during the next decade. *This combination of slower revenue growth and accelerated demand defines the essential financial challenge American higher education faces in the years ahead.*

Colleges and universities are responding to this challenge with various strategies. Some institutions have increased enrollments, thus spreading their fixed costs over larger numbers of students; others have capped or reduced enrollments to make their budgets more manageable. Many have downsized their administrative staffs and contract faculty; a few have reduced the number of full-time tenured faculty.

Some institutions have closed selected schools and curtailed the breadth of their curricula; others have expanded the number and scope of their programs in an attempt to attract more students. Restructuring has become one of higher education's major preoccupations in the 1990s, but consequential efforts to overhaul institutions completely have been relatively rare. Finally, most institutions have continued to increase tuition and other charges at rates that exceed inflation, although in recent years a few institutions have cut their prices.

This paper categorizes the various strategic responses to the financial challenges higher education faces in the 1990s. A principal purpose is to stimulate college officials who have tried these various strategies to share their experiences with others. The five categories of strategic responses are as follows:

1. Attract additional revenues to help close the gap between resources and expenses.
2. Reassess tuition and financial-aid policies to alter the size or mix of the student body.
3. Cut costs, improve quality, and restructure how the institution educates students and administers its programs.
4. Introduce or expand the use of technology to educate students and improve administrative functions.
5. Optimize resource sharing by forming alliances and cooperating with other institutions.

A final section considers governance issues as a strategic tool.

What is a Strategic Response?

What distinguishes a *strategic* response from the many other ways institutions respond to their environments? This paper uses the following definition: *A strategic response is a decision controlled by institutional officials that (1) requires changing an existing major policy, program, or practice of the institution and (2) involves some degree of risk.* The ability of college and university officials to employ some of these strategic responses might vary depending on the particular situation, mission, tradition, and values of the institution. Few if any institutions face identical challenges, and few would be well served by responding to financial challenges in exactly the same way as some other institution, no matter how similar one institution might be to another.

For example, the role of fund-raising and other forms of revenue augmentation are clearly different for a national research university than for a local community college. Similarly, restructuring the teaching and learning function at a comprehensive university may be a far different matter than at a small private liberal arts college. To the extent possible, this paper attempts to clarify how these strategic considerations may vary for different institutions.

Strategic Response

1 **Attract additional revenues to help close the gap between resources and expenses.**

Revenue enhancement typically is the first line of defense for an institution that faces a gap between resources and expenses. This approach is consistent with the theory of higher education finance that suggests institutions should raise all the revenues they can and then spend them all in what they deem to be the best way possible. An obvious attraction of revenue enhancement is that it always is less painful and generally more fulfilling to raise money than to cut staff or services. Five of the more prominent revenue-raising strategies follow:

Auxiliary activities—such as conducting executive programs or renting the campus's facilities to outside groups during the summer—have long been an important source of supplemental revenues for many institutions, and this strategy has become quite common in recent decades. Twenty or thirty years ago, supplemental use of facilities for activities outside the basic mission of the institution would have been the exception rather than the rule on most campuses. It now is rare to find a campus totally at rest during the summer months.

Governmental support, for many institutions already the primary source of funding, is an obvious target for revenue enhancement. For public institutions, the first line of defense against financial difficulties is to lobby more intensively for state appropriations in an effort to meet operating and categorical expenses. Institutions in both sectors are working harder to obtain more federal funds for research and financial aid. This priority helps explain why so many institutions, in addition to their memberships in various higher education associations, now employ lobbyists both in their state capitals and in Washington, D.C.

The decision to seek more governmental support raises the issue of whether the additional funds one institution receives come at the expense of another. In a zero-sum situation, in which overall funding for higher education is relatively fixed, this indeed is true and underscores the importance of working toward increases in overall funding, rather than fighting over slices of the same pie.

Fund-raising is a major responsibility of private college presidents and trustees. For many private institutions, fund-raising revenues allow them to remain independent of state control. Without this source of funds, these schools would have to merge, close their doors, become public institutions, or charge much higher tuition (an option that, realistically, most private colleges could not survive). Faced with these alternatives, private institutions choose to raise funds.

Fund-raising is important for every private college regardless of the size of its endowment. Roughly 100 private institutions have endowments with market values in excess of $100 million; for the remaining 1,500 private institutions, endowments are much smaller. But even for these institutions, income from their endowments of-

ten plays a critical role in the financial picture.

Increasingly, fund-raising also is a large part of the regimen of public college presidents. To replace shortfalls in state funding, reduce the need to raise tuition, and close the gap between expenses and resources, public institution officials are relying more and more on fund-raising techniques that once were the exclusive province of private colleges and universities.

Most notable is the rapid growth of foundations at most public colleges and universities. These foundations usually are separate entities from the public institution or system, but they nonetheless represent the public sector's equivalent of the private institution's development office. In most cases, foundations provide a margin of excellence, rather than replace state appropriations.

Grants and contracts from governments as well as private sources represent another way for public and private institutions to augment their revenues. These funds are particularly attractive in times of financial stress, because their distribution occurs in different cycles from such larger revenue sources as tuition income or state appropriations for general operating support. Research universities use grants and contracts to support sponsored research on campus, but other types of institutions also depend in lesser degrees on these revenues.

Entrepreneurial activities are another way to enhance revenue, and a wide variety of campuses are exploring this option. Traditionally, most colleges and universities have been reluctant to engage in business activities that generally fall outside their traditional core duties of teaching, research, and service because they seemed antithetical to their nonprofit status. These activities also can raise a number of troubling issues, including taxation of unrelated business income, "town-gown" relations, and ethical concerns relating to patents, copyrights, and profit sharing. But growing financial pressures have led many colleges and universities to pursue more aggressively entrepreneurial opportunities in a wide variety of fields.

Many institutions, especially those in large metropolitan areas, own extensive real estate holdings. Aside from providing dormitories for their students, these institutions have become significant landlords in their proximate communities. Some colleges and universities operate for-profit enterprises. In some cases the schools inherited these businesses as part of a bequest, but in other instances the institutions have initiated the ventures.

The most dramatic example of entrepreneurial activity in higher education, however, is the commercialization of campus research discoveries, many of which have created substantial financial gain for researchers and their institutions. The explosive growth of this activity raises a number of thorny issues, including potential conflicts of interest, protection of intellectual property rights, and what constitutes an appropriate division of financial benefits among the government, the institution, and the researcher.

Questions Trustees Can Ask

Obviously, it is better for an institution to have more rather than fewer resources. It might seem that there is little question, therefore, whether an institution should engage in efforts that could lead to increased resources. But trustees and senior administrators should ask some important questions in this regard.

• *Is the revenue-raising activity in question consistent with our institution's mission and values?* Typically, officials focus only on revenue-raising strategies that match the goals and orientation of their institutions. But in the pressure cooker of financial survival, some may consider sources of funds that are inconsistent with institutional purposes. The requirements of a business opportunity or the stipulations on a gift, for example, may conflict with the school's mission or policies. Trustees and institutional officers must factor these important considerations into decisions regarding revenue-enhancement possibilities.

In the public sector, the activities of foundations may raise questions if the activities fail to complement or adhere to the principles and policies of the institutions with which they are associated. As the number of public foundations grows, this concern becomes increasingly important.

• *Are the costs of this activity—in terms of expense, staff time and institutional commitment and risk—worth the benefits of additional revenues it might generate?* Trustees and officers must ask this basic question concerning any effort to increase institutional resources. If overall costs outweigh potential revenues, the activity may not be worth-

while. For example, real estate and other business activities require either hiring staff familiar with these issues or contracting with consultants who specialize in these areas.

• *Should our revenue-raising efforts be earmarked for special purposes or unrestricted in use?* It seems that more and more fund-raising and other forms of revenue enhancement are directed not at enlarging a pool of unrestricted funds but rather are targeting specific needs such as student aid, faculty initiatives, and facility improvement or replacement. Because unrestricted funds often can be shifted to areas underserved by earmarked revenues, the trend toward targeted fund-raising may not matter that much. Nonetheless, trustees and administrators should consider whether targeting funds is consistent with the established priorities of the institution.

• *Are any troublesome public-relations or perception issues attached to various revenue enhancement efforts?* It is worth remembering that a principal reason the United States government grants nonprofit status to higher education institutions is that the public trusts colleges and universities to educate and serve without abusing their position in the community. Gordon Winston, an economist at Williams College, has observed that one reason colleges and universities recently may have lost public esteem is that the public now perceives them more as *revenue* maximizers than as *trust* maximizers. Winston's comment underscores a reality institutions face when their intensive revenue-enhancement strategies succeed: It often is difficult afterward to claim impoverished circumstances and the need for special treatment.

Strategic Response

2 Reassess tuition and financial-aid policies to alter the size or mix of the student body.

One of the most fundamental financial issues private colleges and universities face is whether they are approaching or have exceeded the limits of the "high tuition/high aid" strategy that served them so well in the 1980s. This strategy first took hold in the late 1970s and early 1980s, after a period of several years when tuition increases had lagged behind inflation. Officials at a small group of elite private colleges decided to shift strategies and raise tuition decidedly ahead of inflation. The intent of this strategic shift was to net additional revenues, which in turn would allow these institutions to enhance facilities, gain ground on deferred maintenance, and recruit and retain faculty and staff—all tasks postponed during the 1970s because of a lack of funds. A key related strategy was to increase the student-aid budget substantially to maintain and possibly improve enrollment diversity.

One reason senior administrators and trustees decided to pursue such a strategy was they believed that because tuition increases had stayed below the rate of inflation during the 1970s, most private colleges had become underpriced relative to the value of the degrees they granted. The strategy of raising tuition more rapidly than inflation also entailed a shift in the philosophy behind financial aid. Instead of relying primarily on gifts and endowment income to provide student aid, these institutions began to rely more on tuition dollars.

The results of this "experiment" encouraged the institutions that tried it. Their overall resource base increased, and the composition of their student bodies became more diverse. The success of these institutions apparently led a great many others to pursue a similar strategy. By the mid-1980s, most private colleges and universities had adopted the practice of rapidly increasing tuition. In addition to bolstering financial-aid budgets, the resulting revenue also allowed institutions to expand services, build and renovate facilities, and raise salaries for faculty and staff.

It reasonably can be said that high tuition/high aid was one of the most successful strategic responses by independent higher education in recent memory. Consequently, the financing of private institutions in this country today is far different from at the beginning of the 1980s. For one, tuition charges are much higher in real terms. In 1997, average private college tuition and fees exceed $15,000, with room and board and other charges pushing the total to roughly $20,000. These figures represent more than a 50 percent increase in real terms since 1980, when tuition averaged $3,500 and total charges approached $5,000.

In addition, financial aid from all sources has become a much more prominent part of private college budgets and financing strategies. Most private colleges today provide aid to a much higher proportion of their students than they did in the early 1980s. It is common at private campuses today for more than one-half the students to receive aid, which indicates a degree of dependence on financial aid unheard of before high tuition/high aid efforts began in earnest.

Each of these trends—increases in tuition and fees, increases in student-aid budgets, and increases in the proportion of students receiving aid—helps explain the limits of the high tuition/high aid strategy for the future. If a college raises tuition to the point that its price no longer reflects its value, it will have difficulty attracting sufficient numbers of qualified students to fill its seats. And an institution with empty seats will find its economic viability called into question. Similarly, as the proportion of students on aid increases, the proportion of tuition dollars retained for other purposes falls. This reality pressures college officials to abandon need-based aid and need-blind admission policies in order to retain a large enough portion of tuition increases.

These twin pressures—maintaining enrollment levels and retaining enough tuition revenue for purposes other than to supply aid—serve as effective limits on the high tuition/high aid strategy. The problem for most private colleges is that these trends do not move in the same direction. The most direct ways to maintain enrollments are either to keep prices low or to offer enough aid to offset higher tuition. But each of these approaches reduces the resources available for purposes other than financial aid.

Moreover, the more involved an institution becomes in the high tuition/high aid strategy, the worse this dilemma may become, because the aid budget must grow to keep up with increases in tuition and other charges. This is the dark side of the high tuition/high aid equation. As tuition increases, institutions become increasingly dependent on student aid to retain their middle-class students who, without that aid, would be unable to afford the rising prices. Even with additional aid, however, the high sticker prices of private institutions may prompt many middle-class students to choose public schools.

Ironically, as most private colleges question the viability of the high tuition/high aid strategy, more states and public institutions are debating whether such an approach makes sense for them. Many public institutions now find themselves in a position similar to that of private colleges in the early 1980s: Their tuition charges are far less than what most students would be willing to pay. Not surprisingly, therefore, in recent years most states and many individual public institutions have contemplated adopting the high tuition/high aid strategy as a means of dealing with shortfalls in state funding for higher education.

Although their financial situations may be similar, real differences between public and private institutions raise questions about the applicability of this response in the public sector. Public institutions, for example, typically do not possess the same degree of control in setting tuition as do their private-sector counterparts. Some public institutions do not have that power at all, and those that do must act in concert with other key players such as state boards, legislatures, and governors. Also, most public institutions have no control over the majority of financial aid their students receive; those funds come primarily from the states. This distinction is critical because the high tuition/high aid strategy depends on an institution's ability to coordinate its tuition and financial-aid policies. Finally, public institutions retain less control over their enrollment levels than do private schools. Thus, insofar as tuition and aid policies affect enrollment management, the high tuition/high aid strategy may fail in the public sector.

Questions Trustees Can Ask

The subject of tuition and financial aid is complex. No magic set of answers or ratios applies to all institutions. Each institution must assess its own situation—its dependence on tuition, its position relative to its peers, the strength of its endowment, the depth of its applicant pool, and so forth. To compose an accurate picture of their institution and what it should do about tuition and financial policies, trustees and officers need to ask the following questions:

• *How dependent are we on charges for tuition, room, and board as a revenue source, net of the financial aid we provide to our students? How has this figure changed over time?* Traditionally, institutions look at their aid budgets as a percentage of educational and general expenditures and tuition as a measure of their dependence on student aid. But these ratios fail to reflect the size of an institution's endowment, an important consideration in measuring financial strength. These ratios also consider student aid an expenditure, rather than a discount from revenues.

Looking at long-term trends in student charges net of aid corrects for some of the problems with traditional ratios. Net revenues increasing at a healthy rate over time indicate financial strength and an ability to continue with current practices. Flat or declining net revenues, on the other hand, denote financial distress and a need for changes in current practices and policies.

• *How strong are we financially, and what does this tell us about our tuition and aid policies?* An institution's financial status dictates the strategy it should follow regarding tuition and financial-aid policies. Institutions with substantial endowments and strong applicant pools can continue to raise tuition more rapidly than inflation and maintain need-blind admissions and need-based aid policies. At the other end of the spectrum, several hundred private colleges and universities have little or no endowment funds and are substantially underenrolled relative to their capacity. These institutions should consider lowering their prices to fill seats and reduce pressure on student-aid budgets.

Most of the nation's private institutions fall between these two extremes. They need to consider whether to rein in tuition growth and how to approach financial aid. The strongest of these schools can continue to raise tuition faster than the rate of inflation, but unlike their elite counterparts, these institutions must alter their financial-aid and admissions policies to achieve financial stability.

The financially weaker institutions in these middle categories need to consider cutting the growth in tuition to below the rate of inflation, because they are not strong enough to fill their seats with sufficient numbers of middle-class students just by altering admissions and financial-aid policies. In addition, these schools must reconsider their financial-aid policies and perhaps provide merit discounts to attract targeted groups of students.

• *Should the size of our institution increase, decrease, or stay about the same?* In the short term, a principal objective of tuition, financial aid, and other enrollment-management policies is to fill the seats that currently exist on campus. Officers and trustees should reexamine policies that fail to meet this objective. For most institutions, whether they have empty seats is a more important financial consideration than how fast the price of tuition rises.

In the longer term, it also is critical for trustees and administrators to ask whether the current capacity of the institution is appropriate. Because tuition and aid policies ultimately constitute a major part of enrollment management, an institution's charges and financial-aid policies will have a large effect on the size and composition of its student body.

• *Is it possible to increase tuition, improve diversity, and prevent the exodus of middle-class students, yet still have adequate funds after meeting student-aid requirements to pay for program and facility improvements and increases in faculty and staff compensation?* This question epitomizes the dilemma many private and public colleges now face. In the 1980s, the answer to this question seemed to be Yes, at least for most private institutions. In the 1990s, however, the answer for most private colleges seems to be No. Public institutions also need to ask this question in deciding whether to pursue some version of a high tuition/high aid strategy.

Strategic Response

3 Cut costs, improve quality, and restructure how the institution educates students and administers its programs.

Although revenue enhancement is the first recourse of most institutions faced with a gap between resources and expectations, this typically cannot be an institution's only strategic response. Eventually, it must consider the cost side of the equation. Strategies aimed at conserving or reallocating available resources fall into three categories: increasing productivity, improving quality, and restructuring the institution.

Conversations about these three approaches to fiscal management have dominated debates in higher education for much of the 1990s. This interest was stimulated in part during the 1980s when many leading American corporations introduced major changes in their operations and business philosophies. These corporate efforts gained momentum in response to several market factors, including unprecedented global competition and growing consumer resistance to rising prices.

To the extent that these same conditions pertain to American colleges and universities in the 1990s, it seems worthwhile to consider whether the techniques that have worked well in the business world can foster similar success in higher education.

Productivity Enhancement and Cost-Cutting. One of the most distinctive features of higher education systems around the world is their labor intensity. In the United States, at least three-quarters of every dollar spent in higher education goes into compensating faculty and staff. Thus, when resources become scarce, personnel costs are the natural first target in budget-cutting.

Most frequently, efforts to alter the number or utilization of personnel are cast in terms of increasing the productivity of the institution. For faculty, this means the same number of faculty teaching more students or more classes, or fewer faculty teaching the same number or a greater number of students. On the administrative side, the search for greater productivity usually translates into staff cutbacks, higher work loads, outsourcing, and automation. Not surprisingly, these "productivity enhancement" efforts typically elicit varying degrees of resistance from many faculty and staff.

By and large, most productivity improvements and cost-cutting efforts have addressed the administrative side of the operation, partly because in the 1980s the number of administrative staff grew much faster than the number of academic personnel. Indeed, it would be hard to find a public or private institution that has not substantially changed its administrative personnel and practices during this decade.

The same cannot be said for academic programs. Relatively few institutions have reduced the number of full-time faculty—especially those who are tenured—except by attrition. Nor have most institutions changed the terms and conditions of faculty employment by requiring them to spend substantially more hours teaching or helping students outside of the classroom. Most changes in academic personnel matters have concerned nontenured, part-time faculty or the growing numbers of adjunct faculty.

Adoption of Quality Improvement Techniques. One of the most remarkable recent developments in the American corporate sector has been the adoption of a wide range of operational processes that fall under the general rubric of total quality management (TQM). After decades of resisting the changes in business practices occurring elsewhere around the world, American corporations in the 1980s began responding to their eroding ability to compete in the global marketplace with a new willingness to adopt quality-improvement techniques.

Many American colleges and universities have followed the lead of the business community. As with productivity improvement and cost cutting, higher education's quality-improvement efforts have focused mostly on administrative operations. Relatively few colleges and universities have instituted quality-improvement procedures in their academic departments, although many more are exploring these options as part of their strategic planning activities.

Restructuring. Although restructuring has been one of the hottest topics in higher education in recent years, evidence of what most observers would consider "real" restructuring has been minimal. Most of the restructuring touted in

higher education fits more appropriately in the category of downsizing or improved quality control. This observation is not intended as criticism. In fact, modest strategies may be the more reasonable response to the challenges most institutions face. These challenges include shortfalls in traditional funding sources, the need for greater administrative efficiencies, the need to reposition relative to the competition, or imbalances in faculty or student commitments to teaching, research, and service.

In its truest form, real restructuring involves a great deal more than the organizational changes most American colleges and universities have made in recent years. Real restructuring requires altering fundamental tenets or changing the mission of the institution. Eliminating tenure in favor of renewable contracts or doing away with discipline-based departments in favor of multidisciplinary arrangements would qualify as real restructuring. If a science-based institution switched to liberal arts, if a residential college did away with dormitories and became a commuter school, if a university eliminated its classrooms and shifted to a technology-based curriculum, that would be real restructuring. But relatively few institutions have taken such dramatic steps.

Inevitably, restructuring means different things to different types of institutions. Most *research universities,* for example, are well-enough ensconced and sufficiently adept in serving a particular set of needs that they need not rethink their basic mission when considering restructuring, as other institutions perhaps should do. Instead, they must examine the organization of their academic functions and the way they conduct research, on campus and in conjunction with affiliated entities. Given their size and complexity, research universities interested in restructuring might consider fundamental changes in their governance structure—rethinking, for example, the relationship between the president and provost, deans, and department chairs to enable them to respond more quickly to changing conditions.

Comprehensive universities are the institutions most acutely challenged to ask whether the mission for which they were established still makes sense. Insofar as these institutions are more flexible than their research counterparts, they may be more able to make the changes in mission and direction that are necessary to ensure their future success. Comprehensive universities will feel the most pressure from the demographic forces facing all of higher education. For many comprehensives, therefore, restructuring may entail massive additions of technology to accommodate growing demand, especially in the South and West where the number of students seeking admission will grow fastest.

Liberal arts colleges must continue to assess whether the idea of a small college with a largely nonvocational emphasis can survive in a world where the focus increasingly is on jobs and where economies of scale can outweigh the benefits of small classes and personalized attention. Some degree of restructuring has occurred in this sector already, as many liberal arts colleges faced difficult choices and opted to become comprehensive institutions. As their name implies, liberal arts colleges also embrace a basic mission of teaching the liberal arts. To the extent that some of these institutions have changed their curricula fundamentally in the direction of more specialization, restructuring already has occurred. Many other liberal arts schools, however, have chosen to "stay the course" of the traditional curriculum, believing that a niche continues to exist for them in the market and betting that other less-selective competitors will turn in other directions.

Community colleges face perhaps the most difficult challenge of any institutional type in terms of restructuring because of the many functions they perform related to their role as the primary avenue of access to American higher education. Consequently, a decision to raise standards and abolish open admissions would serve as an example of restructuring for these two-year public colleges. Another example would be a dramatic change in the mix of program offerings, such as eliminating the associate's degree and focusing instead on enhancing certificate programs or maximizing the number of students who transfer to four-year institutions. None of these examples is likely to occur, however, which may help to explain why there has been less talk of restructuring in community colleges than in other sectors.

Questions Trustees Can Ask

Issues of productivity, quality, and restructuring ultimately come down to an assessment of how well an institution is performing. If the governing board, administration, faculty, students, alumni, and various other constituencies believe the institution is working well, then it is unnecessary to undergo the often-agonizing process of asking who are we, what are we doing, and how well are we doing it. But few institutions are convinced they are doing their absolute best in every area. Consequently, the following questions are relevant for most schools:

- *Are we as an institution in need of a fundamental overhaul, or are we doing reasonably well and only need to make some adjustments?* Most higher education institutions probably do not need to be fundamentally restructured in the truest sense of the word. But this opinion should give little comfort to those that do need to restructure to survive. If the answer to any of the following questions is Yes, restructuring may be in order: Is the institution seriously underenrolled relative to its capacity? Is there a permanent gap between expenses and the resources? Does the institution consistently lose students to its competition? Are there potential future sources of competition that will undermine even more seriously the institution's ability to maintain enrollments?
- *Are there ways to improve the productivity of administrative and academic functions without detracting from the quality of what we do?* This, of course, is a fundamental question all institutional officials frequently ponder. But whether they do something about it is another matter. It is far easier to theorize than to make changes. Without a significant stimulus, colleges and universities, like most other organizations, are more likely to continue to do things as they have before. One of the major responsibilities of trustees and senior administrators is to sift through the many proposals for change and select the ones that make sense for their institution, keeping in mind that what worked for one institution may be entirely wrong for another.
- *How can we ensure there is adequate quality in the basic functions of teaching, research, and service to our students and the community? What are the costs and benefits of implementing quality-control systems?* Until recently, most higher education institutions spent little time considering how to improve the quality of what they do. Over the last decade, however, the burst of information gathered from TQM initiatives and other quality-improvement techniques has changed that. Most institutions now have engaged in at least some of these practices, and some have been quite enthusiastic in their adoption. Some institutions, however, may have oversubscribed to the concept. Quality-improvement procedures bear certain costs in terms of time and other resources. Trustees and officers need to examine these costs and determine whether the likely benefits are worthwhile.

Strategic Response

4 Introduce or expand the use of technology to educate students and improve administrative functions.

Increasingly, higher education officials are focusing most prominently on technology and distance learning as the strategy with the greatest potential for closing the gap between resources and expectations—and for good reasons. Dramatic advances have greatly enhanced the possible uses of information technology on campus while also expanding the possibilities for distance learning. These advances include development of the Internet, the vast improvement in interactive technologies, and the ready availability of computers at work and at home. Technology also promises to resolve the problem of meeting growing demands without building expensive new campus facilities for teaching and housing students.

The issue of cost obviously is critical to the future use of information technology in higher education. But surprisingly little serious and substantive analysis has been conducted to evaluate the cost-effectiveness of various technology-intensive applications. The cost-effectiveness of technology more often has been asserted than proved. Nonetheless, some observers suggest higher education institutions—for their own sakes and for the benefit of society—should adopt new technologies regardless of cost in order to ensure continued leadership in the use and application of technology.

It is reasonable to ask whether new information technologies will succeed in transforming higher education, considering that previous "revolutionary" breakthroughs, such as television, were not very successful in this regard. Although the new information technologies certainly are far more sophisticated and seem to hold much greater promise than television signals or videotape, these prior experiences should be somewhat sobering.

Information technology and distance learning offer different types of institutions varying strategic responses. *Research universities* will need to consider whether new methods of storing information may make their research libraries obsolete or radically reduce their value. Distance learning is a critical issue for many *comprehensive universities*, which often serve regions that include remote, rural populations. *Liberal arts colleges*, because of their small size and largely residential student body, must find sufficient resources to "wire" their campuses and ensure that each student either owns or has access to a computer. Because *community colleges* generally teach specific vocational skills, they must be concerned with adopting technologies that allow them to train large numbers of underserved students.

Questions Trustees Can Ask

Employing information technology and distance learning is the strategic response perhaps most difficult for trustees and officers to deal with because (1) change is occurring so rapidly and (2) the cost consequences are so difficult to understand and predict. The range of possible applications can be bewildering to all but experts in this subject, and few institutional leaders have the expertise and experience to make reasoned choices. As a result, institutions run the risk of committing themselves to expensive technology initiatives without fully understanding their ramifications. In this context, trustees and administrators should explore the following questions:

• *Which of the new or emerging technologies are most consistent with the mission of our institution? Should we use technology to change the focus and mission of our institution?* One place for governing boards and officers to start making decisions concerning the use of information technology is simply to consider what makes sense for their campus. Although innumerable options are available, only some will be appropriate for any given institution.

• *How do we know that new technology will enhance teaching and learning?* No one really does. Despite many positive examples—raising basic reading and mathematics skills among underprepared students, for instance—better quality may not always be the result of increased use of technology. Trustees and administrators should take care to ensure that particular technological applications bear a reasonable chance for success and are not instituted because of a blind faith in the benefits of technology.

• *What are the cost consequences, now and in the future, of adopting various technologies?* One reason cost is the most vexing issue related to new technologies is that acquiring new hardware often represents a relatively small part of the overall expense. Support and maintenance costs often overwhelm initial capital investments. In addition, because new technologies become obsolete so quickly, the costs of replacing fairly expensive equipment also must be factored into the equation.

• *What further advancements are likely in the next five to ten years? Will the strategies we are considering now allow for adoption of subsequent new technologies, or will they serve as impediments to future shifts in direction?* If recent history is any guide, the greatest challenge governing boards and college officials may face in considering the future use of technology is the rapidity of change. With new generations of computers emerging every few years, how does one plan for the next five to ten years? Dealing with this question is particularly daunting if those who make institutional policy do not have access to objective analysis. Therefore, it is critical to seek advice from those who are knowledgeable about technologies but who do not have a stake in the solution.

Strategic Response

5 Optimize resource sharing by forming alliances and cooperating with other institutions.

In good times and bad, the natural inclination of most college and university officials is to make their institution the best it can be by competing for students, faculty, resources, and prestige. Succeeding through competition, after all, is the essence of the American way. Higher education is no exception. But it is increasingly evident that in some cases collaboration may be a better strategy, especially given resource constraints.

Competition is one of the features that most distinguishes American colleges and universities from institutions in other countries where higher education typically is centrally controlled and heavily regulated by national or provincial governments. By contrast, in this country, regulation is intended to serve more as a limit to excessive competition than as a principal policy tool.

The urge and the ability to compete and succeed have contributed greatly to American higher education's deserved reputation as best in the world. U.S. institutions use the revenues they raise to enroll the best students they can, through a mix of tuition, aid, marketing, and admissions policies. Similarly, they try to attract the best possible faculty through competitive compensation packages and terms of employment, as well as by providing bright students for their professors to teach. Institutions also try to build and maintain the best housing, recreational, and academic facilities their budgets can provide. This is all in the best tradition of American society.

But in far too many cases, the urge of institutions to compete has become excessive, and this has led to inappropriate and inefficient use of resources. For example, when an institution with plenty of qualified applicants tries to improve the composition of its student body by seeking even more applicants through aggressive and expensive marketing campaigns, the result often is little improvement at great cost. Or when an institution offers lucrative contracts and reduced teaching loads to lure elite faculty from other campuses, the result often is lower morale among existing faculty and/or depleted faculties at the stars' previous institutions. Or when fierce competition for students leads to heightened spending to improve dormitories or recreational facilities, consumption needs are being served—not investment needs.

A more subtle form of excess competition occurs when an institution seeks to become all things to all people. An institution may offer programs and degrees in too many disciplines, for instance, or it may subscribe to an inordinate number of academic journals for the library. Such examples indicate an underlying problem: Some institutions aspire to a single model of excellence—the research university—rather than to success within a more appropriate niche.

An analogy to the health-care industry may apply here. For years, the public has complained that doctors and hospitals have been unwilling to coordinate efforts to control the costs of tests, facilities, and technology. The move to a managed-care system is an attempt to curb the excessive competitive zeal that pushed health-care providers to actions that consumed rather than conserved resources. If higher education does not take the initiative to stem its own competitive urges, it risks undergoing similar wrenching changes.

The point here is that the decision of a college or university to compete in various ways is itself a strategic response to a specific set of conditions, rather than to some external force over which it has no control. Consequently, institutions can—and should—consider alternatives to competition.

Collaboration—that is, cooperating rather than trying to do everything alone and better than other institutions—is one such alternative. Whereas competition typically entails a heavier outlay of resources, collaboration allows institutions to conserve resources, to be more selective in what they do, and to take advantage of the strengths of other institutions. Particularly when resources are relatively scarce, collaboration is an approach that may make a lot of sense.

Just as competition is an integral part of the history of American higher education, so are collaboration and cooperation. Dozens of regional and local consortia of institutions

throughout the country allow some combination of library exchanges, joint academic programs and/or administrative procedures, cross-registration, and shared tuition. Tuition remission among certain groups of institutions and tuition reciprocity among neighboring states are some other long-standing examples of collaboration in higher education.

In recent years, an increasing number of institutions and states have recognized the necessity of cooperation to stretch scarce resources. Some institutions have formed alliances to benefit from a wide range of emerging technologies in the classroom, the library, and administrative offices. Others are pooling efforts with nearby institutions rather than competing for a dwindling number of the same group of students.

Mergers, of course, represent the ultimate collaboration in higher education. When a merger results in a synergy among compatible institutions, it can be extremely beneficial in reducing costs and broadening services and course offerings. But mergers that arise out of extreme financial difficulties at one or more institutions are unlikely to be as beneficial as a merger between institutions that complement each other's strengths.

Nor is collaboration limited to cooperation among institutions of higher education. Colleges and universities also can reap benefits by joining forces with many other organizations. Some institutions, for example, develop partnerships with local school districts to share faculty or facilities. Many businesses, rather than providing their own corporate training, take advantage of existing curricula and programs at local institutions. In other cases, businesses and colleges share existing facilities rather than building new ones.

Although collaboration generally has much to recommend it, some caveats apply. In the late 1980s the U.S. Justice Department conducted an antitrust investigation into the inter-institutional exchange of information on prospective increases in tuition and faculty salaries, as well as the financial-aid status of certain applicants. The critical distinction here is that collaboration on the use of resources would likely be viewed as far more benign than the exchange of information on pricing, salaries, or financial aid.

Also, voluntary cooperation has not always been successful, especially among public institutions. Although coordination by state boards of higher education often results in better utilization of resources, in numerous cases state board interventions have been excessively bureaucratic and sometimes have prevented institutions from implementing useful innovations. As with competitive efforts, state and institutional officials should seek beneficial forms of cooperation and eschew stifling regulatory initiatives.

Questions Trustees Can Ask

The natural tendency of institutions is to compete even if the costs are high. Consequently, the decision to cooperate rather than compete typically requires a change in mindset. If the gap between expectations and resources widens, this can lead to a shift in attitude and a greater willingness to consider the benefits of alliances with other institutions. Here are a few questions boards and administrators might ask about collaborative possibilities:

• *Has our institution formed partnerships aimed specifically at containing costs or sharing resources? Would we benefit from doing so?* One means of reorienting an institution's competitive instincts is to consider its present collaborative efforts. Some colleges and universities have been leaders in this regard, actively seeking to form alliances and partnerships with like-minded or nearby institutions. Others have set their own courses and avoid the possibility of partnership. It is worth asking: Which kind of institution are we?

• *Are there ways collaborative efforts can enhance, and not detract from, our ability to compete?* Competition and collaboration should not be presented as two opposing forces, mutually exclusive in value. In many instances, cooperation enhances an institution's ability to compete. For example, joint majors or academic programs can strengthen the position of each participating institution by eliminating the expenses of offering each program separately. Similarly, libraries that participate in inter-institutional arrangements often can enhance quality while conserving resources. Still another example of this kind of synergy occurs when study-abroad programs sponsored by different institutions share facilities.

Viewing Governance As a Strategic Tool

This paper has attempted to provide a framework for governing boards and institutional officials considering various responses to financial challenges. But each strategic response also must be evaluated within the context of an institution's governance structure. Officers and trustees should consider at least two issues pertaining to governance.

- To achieve greater efficiency and effectiveness in decision making, all institutions—public and independent—must rethink the traditional principles of shared governance that define the internal balance of power among trustees, administration, and faculty.
- Public institutions in particular must assess whether they have sufficient autonomy to make decisions for their campuses. They must consider which of two opposite directions makes sense for them—either (1) decentralizing decision-making processes, thus granting more authority to individual institutions within a system or state, or (2) centralizing decision-making processes, to help ensure that all institutions are pulling in the same direction.

Reassessing Principles of Shared Governance. Most American colleges and universities are by nature diverse organizations that prize the traditional academic process of discourse and deliberation. In most institutions, this preference affects administrative decision making. Yet strategic issues often place great emphasis on timeliness and direction. Consequently, as financial pressures have mounted, some schools have accelerated their internal decision-making processes to respond more quickly to issues of strategic significance. In fact, conflict between the customs of academic discourse and growing financial urgency has led many institutions to conclude that the traditional arrangement of shared governance among trustees, faculty, and administration is inadequate.

This tension can surface in a number of ways. The faculty senate may have to answer questions about whether it represents the entire faculty. It may be challenged about its capacity to make difficult decisions about curricula and other matters. Faculty and student leaders may question whether the board and the president are willing to contemplate proposed changes they deem important. Trustees may wonder whether anybody is listening to *their* concerns. And students generally are convinced nobody is listening to theirs.

Some institutions are attempting to change the existing balance of power by granting the president greater latitude to make certain decisions or by giving trustees or faculty more responsibility for certain functions or levels of policy. Other institutions have responded by turning to such nontraditional mechanisms as strategic-planning councils and university forums that engage faculty, key administrators, and sometimes staff and students in campus decision making. These entities either sidestep or coexist with extant decision-making processes. In either instance, they can play a critical role in establishing institutional priorities and funding patterns. Unfortunately, they also can slow down the decision-making process.

Altering Campus Authority for Public Institutions. During the past decade, the public sector of higher education increasingly has relied on greater coordination and consolidation of decision-making authority at higher levels of system governance. This trend began primarily because of concerns that individual campuses were not carrying out the priorities of the governor, legislature, or system governing board. More recently, however, it appears the pendulum may be swinging, with campuses being given greater authority, which allows for more flexibility and experimentation.

A perennial topic of discussion that has become a critical issue in many states is the ability of public institutions to manage their internal affairs and to retain or regain levels of flexibility and autonomy. Campus officials say they require the flexibility enjoyed by private institutions to adapt to changing markets and new demands. They also contend that excessive state controls over administrative areas (such as purchasing, carry-over budgets, transferability between budget lines, and management of capital projects) preclude or inhibit this necessary degree of flexibility. Frank Newman, president of the Education Commission of the States, has called this sort of tight state regulatory control "bureaucratic intrusion." Efforts now underway in a handful of states to loosen these restrictions have caused a number of other states to consider the merits of following suit.

There is growing recognition that regardless of the state structure that oversees public institutions—one state board over a consolidated university system, or a single-campus board for each institution, or a mixed structure of systems and single boards—decisions should be made as close as possible to where the impact will be felt—that is, on individual campuses. To this end, some states (Illinois and New Jersey, for example) have reorganized their governance structures to grant greater autonomy to individual campuses. In New York, the central system is working to differentiate the mission and policies of its 64 campuses. Still another model emerges in the proliferation of local governing boards intended to complement a system board.

All of these efforts are underway in the hope that campus administrators and/or local boards will be better equipped to take their institutions into the next century if they participate in decision making rather than if the central system dictates all policies. The point is that institutional autonomy need not be equated with the presence or absence of one's "own board." Rather, it lies in the ability of institutions to respond to new challenges and opportunities, to make final decisions and be accountable for those decisions, to take risks and make mistakes, to learn, and to move on.

About the Author

Art Hauptman has been an independent public policy consultant and author since 1981. He is nationally recognized expert on issues relating to student aid, college costs, and higher education finance generally. He recently coauthored a Brookings Institution publication, *The College Aid Quandary*, with Lawrence Gladieux.

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